White Paper

Increasing Revenue Through Direct Without Cannibalizing Retail

With a Special Case Study from USA800

Increasing Revenue Through Direct Without Cannibalizing Retail Channels

Questions this paper addresses:

- ***Are your current product and/or service channels maximizing your market share opportunity? Do you really know what this is or should be?***
- ***Do you and your competitors share the same sales and distribution footprint? What are your competitive differentiators from both a distribution and communications channel perspective?***
- ***Do you know which of your customers buy from which channel and why? Do you understand what their individual needs and preferences are relative to your marketing, sales and service channels of distribution?***

If you don't know the answer to one or more of these questions - or worse yet, you know the answer, but it isn't what you want it to be, maybe you need to consider revisiting your current channel marketing and sales strategy.

The Evolution of Direct in the Last Ten Years

In 1999, Peppers and Rogers Group in conjunction with Stamford University estimated that by 2010 the consumer-direct channel (which includes catalogues, direct mail, interactive television and on-line/e-commerce transactions) would account for roughly 24% of all U.S. retail sales which is estimated today to be slightly over $2.0 trillion[1]. In 1999, they estimated that number was only 5% of retail sales. Today, including business to business transactions, the National Direct Marketing Association estimates that total direct revenue actually comes closer to being 32% of total retail sales or $659 billion by 2010, a 540% increase![2] The dynamics of the marketplace in these ten short years has changed so dramatically, that no one, not even Peppers and Roger's "Institute for the Future", could have anticipated the impact that the internet would have on buyer behavior ten years later – particularly when combined with other direct channels.

Retailers were some of the first to adopt the internet, especially those with established traditional direct marketing channels, such as direct mail and catalogues with in-bound sales centers. The internet also gave rise to several new pure-play channel marketers whose core business model evolved as much as an extension of the channel, as its brand (e.g. Spiegel in the case of catalogues and Amazon.com in the case of the internet). Those companies that evolved as pure-play consumer direct marketers within the traditional media channels have found it easier to integrate the internet as part of an overall blended channel marketing strategy. This is primarily due to the fact that they had the order management, contact center and fulfillment operations to support a targeted direct to consumer interaction.

Traditional retailers were focused more on inventory management, mass merchandizing and managing store-fronts that have more of a general public appeal.

Manufacturers that were early adopters of the direct marketing model, using the technology industry as an example (e.g. Gateway, Dell, Micron), were able to rapidly penetrate different segments of the market by offering preconfigured or highly standardized components and feature options, at a lower price point. Apple, HP and IBM set up their direct channels somewhat later, creating more of a "hybrid" approach that kept their distributor relationships and retail channels intact, but offered more customized solutions to different target customer segments (small to medium business) through their direct channels.

Today, there are hundreds of different manufacturers who have either created their own direct marketing and sales channels or are at least testing it – perhaps in cooperation with their distributors. Furniture, appliances, communications services, electronics, specialty food items, nutritional supplements, are products that can now either be ordered direct via the manufacturer themselves, or through a distributor's website and/or toll free number. However, there are thousands more companies, that have yet to begin taking advantage of a diversified marketing and sales channel strategy to include direct distribution, let alone leveraging these same points of distribution for merely communicating with their end-customers.

Indeed, the lines of distinction between looking at direct channels as a distribution (i.e. selling direct to the consumer) versus a communications medium (i.e. provide product information and/or dealer locator information) can become blurred.

Arguably, there is an opportunity for manufacturers, distributors and retailers alike, to stimulate demand at their traditional points of distribution, without actually completing the transaction on the internet or over the phone. This is not unlike what several manufacturers have done over the years, by creating showrooms or store-fronts, without actually allowing customers to purchase their products in the store (e.g. Gateway Computer). The internet has become the new virtual showroom for a number of manufacturers, who want to showcase their products on-line, but not violate their retail distributor and reseller agreements. This virtual showroom provides an opportunity for these companies to create a direct relationship with their end customers and should be supported with in-bound contact centers to receive e-mails, chats and calls from customers who may want more specific information about their products and/or where to buy them.

Manufacturers that were early adopters of the direct marketing model (i.e. Gateway, Dell) were able to penetrate different segments of the market successfully at a lower price point. Today, there are hundreds of manufacturers who have created their own

What the PC and peripherals' manufacturers in the technology industry learned early on and have been able to do well, is maximize market penetration by utilizing multiple points of market entry and channels of distribution without infringing on their core relationships with retailers and resellers. Many of the other major consumer electronics companies, like Sony, have caught on and offer a fully functional e-commerce website with an inbound 800 number for sales and service and web chat for technical support.

Still, there are many other companies, like Panasonic for example, that are using their website strictly as a source for product descriptions and dealer location information – offering no direct means of customer contact.

Today, more than ever, with the thousands of retail store closings that have occurred in the just the last year (more than 2 dozen leading brand store chains), manufacturers, distributors and retailers, alike, are reconsidering their methods of distribution – concerned about how they are going to get their goods to market, let alone retain their brand identity. Many retailers are migrating or returning to a lower cost pure-play direct channel method of distribution (e.g. J. Jill).

For retailers, retrenching to a "direct only" market strategy may not be that difficult, given that most of them have been operating in a hybrid model for years and have either outsourced or built their own direct response order management, fulfillment and service infrastructure. However, for a manufacturer or service provider, newly seeking to understand if a direct channel distribution strategy is right for them, this might be a daunting task. Fortunately, there are some reputable consulting companies out there, as well as professional direct response outsourcing companies that can assist with this assessment and transition.

Direct Channel Opportunity Assessment and Optimization

So how does a company begin the process of determining when and how they should be reexamining their current channel strategy? What are some guidelines they can use so to ensure they are optimizing their marketing/sales opportunity, without cannibalizing their core revenue streams?

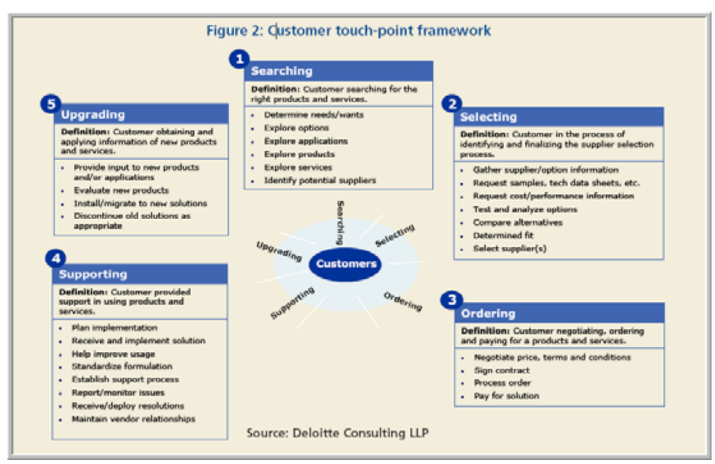
Generally speaking, products that are feature rich and require a great deal of end-user customization can vary significantly in price based on their level of customization. These types of products are typically better sold through direct channels. Conversely, commodity based products that are heavily attached to their brand in terms of conveying value or quality differentiation, but do not vary significantly in price, are better sold in a retail environment or other mass distribution channel.

Deloitte Consulting in September of 2007 published a white paper entitled "Stop the Static"[3]. The papers lays out a suggested approach for analyzing whether or not a company is truly performing at an optimal level within its current channel structure, from both a financial and end-customer satisfaction perspective. The Deloitte model basically provides a framework for analyzing three simple questions:

1) *What do my customers really value?*
2) *How effectively do my channels meet my customer needs?*
3) *What does it really cost to serve my customers?*

Essentially their approach for answering questions #1 and #2 uses a combination of primary and secondary marketing research (i.e. conjoint/trade-off analyses, channel touch-point observations and one on one customer interviews) techniques to ultimately develop a "Channel Capability Scorecard". Their Customer Touch-point Framework (Exhibit 1) identifies all of the various types of interactions a customer needs to engage in across the product/service lifecycle to effectively meet their needs, while the scorecard rates how well each channel is currently performing relative to fulfilling those needs.

Exhibit 1

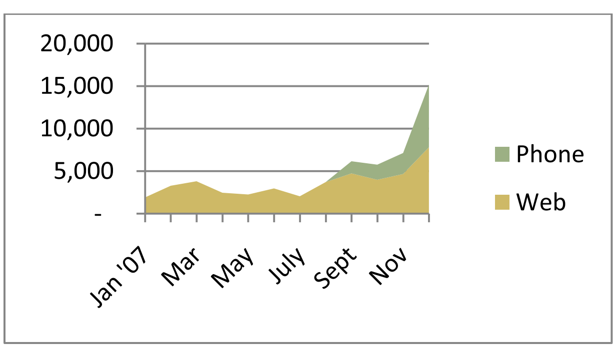


The third question, "What does it really cost to serve my customers?" is answered by creating an overall Channel P&L Statement that is comprised of the following:

1) **Product Costs** – Includes the manufacturing and logistics costs associated with producing and delivering the product within that channel.
2) **Customer Costs** - Includes all cost elements associated with the value proposition offered to a customer.
3) **Channel Costs** – Includes all channel transactional costs, as well as all costs associated with supporting all current and future channel sales.

In addition to looking at the channel's current performance from a capabilities and cost perspective, Deloitte suggests overlaying some basic customer segmentation data in terms of customer profitability and future growth. This data might also provide further insights as to how to prioritize and align channel requirements and investment with customer value. In the case example they reference in their paper a multi-billion dollar, global chemical company is able to increase annual revenues by 3% or $13 Million by using this approach and shifting 17% of its current customer base from a field sales to a "telesales" environment with a special emphasis being given to identifying and mining new customer segments.

Perhaps an even more dramatic example of where channel optimization favorably impacted a company's sales growth cycle can be exhibited in the following case study provided by USA800 – a leading U.S. outsourcing teleservices provider, located in Kansas City, Missouri specializing in inbound, direct response driven marketing, sales, and customer care applications.



CASE STUDY - USA800

In July 2007, USA-800 was contacted by one of the fastest growing national wireless phone and service providers to assist in developing the business case for developing a completely new sales channel and manner for customers to buy – using inbound phone. Prior to this point, the carrier's service had only been available through retail outlets and on-line purchases. After close examination of their business model and understanding their other sales and service delivery channels; USA800 developed the business case, assumptions, key metrics, and cost estimates for launching this new channel.

USA800 and their client were able to go from concept, to business case, to live operations selling via the phone within 60 days. This time period included business case development, sizing the potential operations, training content development and delivery, agent screening, testing and hiring, network and telecom connectivity and operational execution. Without the expertise of a qualified outsourcer with the existing infrastructure and direct response expertise, the implementation would not have been possible for this company to achieve on their own.

Within four months, USA800 was able to go from 0% sales in this new channel to 50% of the direct channel, matching what previously had been achieved over the web, on stand-alone basis. In one year, an incremental $10 Million in revenue was generated through the telesales unit with an overall 11% conversion rate.

In May of 2008 and based on the success of the program, USA800 suggested introducing yet another channel, live sales web-chat, in an effort to further their reach to customers browsing the website. As a result, website conversion rates improved by 15% and to this day USA800 remains this carrier's exclusive partner for deploying and managing this innovative new channel.

Needless to say, the client has rapidly expanded their commitment to the channel and has begun rolling out their direct marketing advertising efforts to several major cities across the country.

Summary

In this extremely volatile economy, now more than ever, is the time companies should be reevaluating their channel distribution and communications strategies. There are no more “sacred” relationships within the traditional marketing value chain that are worth protecting, if they are not operating profitably and maximizing your company’s market share opportunity. These are desperate times and desperate times sometimes call for tough decisions, but also for innovative solutions.

Prior to implementing a direct channel strategy it is imperative that companies take the time and effort to do the market research within their current customer base to understand their needs and how those align with each set of channel requirements. Furthermore, it is essential that companies periodically perform an evaluation of their current channel performance, both from the perspective of meeting customer needs, as well as delivering expected ROI.

To USA800’s credit, the proof of concept that they partnered in developing for their client proved successful because of their ability to scale rapidly and execute this type of operation. Undoubtedly, this carrier would have spent hundreds of thousands of dollars in fixed costs, and months in development, to create the same level of direct sales and service capability, if they had, had to do it on their own. Companies seeking to “experiment” or test using a direct model to augment their current distribution network should not attempt to do this alone. Partnering with a professional outsourcer, like USA800, will not only deliver faster/better results for new direct marketers, but it will also take the guesswork and potential pitfall variables out of the equation that might otherwise occur.

[1]*“Consumer Direct Shopping Behavior in the Age of Interactivity” study conducted by Peppers and Rogers Group 1999, Stamford CT.*

[2]*Direct Marketing Association Research - NY, NY.*

[3]*“Stop the Static – Tuning in to your sales channels can help you satisfy customer without sacrificing margins”– Deloitte Consulting Group – 2007.*

About the Author

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Christine Wright is Founder and President of Customer Contact Insights, Inc. Christine has over 25 years of diverse industry experience consulting with Fortune 500 clients in the areas of Marketing Research, Database Marketing, and Customer Relationship Management; using a multi-disciplinary approach to strategy planning, research and analysis and tactical execution of CRM/Loyalty programs and applications. For more information on Christine, please visit: www.ccicrm.com

About Customer Contact Insights, Inc.

Customer Contact Insights, Inc. is a consulting practice whose mission is solely focused on helping companies grow, while building longer, more profitable relationships with their customers. For more information on Customer Contact Insights, Inc., please visit www.ccicrm.com.

About USA800

USA 800, Inc. is a 100% employee-owned, inbound customer care center which employs 1,300+ employee-owners at its three contact center locations in Kansas and Missouri. USA 800 has been named as one of the Top 50 Inbound Call Centers by Customer Interaction Magazine. For more than 30 years, USA 800 has been providing inbound sales, customer care and technical support functions. USA 800 serves a cross section of industries including: Catalog/On-Line Retail, Consumer Goods, Communications, Education, Government, Healthcare, Insurance, Utilities and Not for Profit. For more information, go to **www.usa800.com**.